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SUBJECT: JAPANESE AUTO EXECUTIVES LOOK TO MARKET
RECOVERY AND NEW TECHNOLOGIES

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INFORMATION

¶1. (SBU) Summary: Honda and Nissan Executives see conditions improving in both auto and financial markets. Honda stresses the importance of being able to benefit now from past investments, especially in alternatives to the classic internal combustion engine investment and taking a long-term view in weathering the market downturn. Both companies seem more focused on the industry's transition to new technologies and the role government policies may play, rather than on market recovery only. Nissan called the recently announced USG funding for electric vehicle (EV) batteries a positive sign. Looking at the situation in Japan, Nissan is concerned over the possibility of a DPJ victory in upcoming elections because of what the car manufacturers feel are unrealistic emissions targets and deadlines. End summary.

¶2. (U) As part of a series of farewell calls, EMIN met Honda General Manager for External Affairs Takao Aoki July 16, and Senior Vice President Hitoshi Kawaguchi, and General Manager for External and Government Affairs Takehiro Kasai July 15.

Market Conditions and Business Prospects

¶3. (U) Honda Motors sees improvement in market conditions and company sales figures, although broader economic recovery is still further down the road. Aoki told EMIN domestic sales figures for June are up 5.7 percent year-on-year and would appear even more striking compared to December figures. Production has increased and inventory levels are nearly back to normal. Access to business financing has improved in both the U.S. and Japan. He said the company's weakened balance sheet also reflects factors such as writing down the asset value of its fleet of leased vehicles, even while sales and production improve.

¶4. (SBU) Describing recent government support, Aoki said the only direct assistance Honda received from the Japanese government was credit insurance to help secure short-term financing. He acknowledged other government measures such as support in the commercial paper market and special bond facilities to provide short-term capital for firms in distress, but said Honda had not needed such assistance. He added, while incentives to encourage consumption may cause consumers to accelerate their purchases, they have not really changed underlying consumption patterns. In other words, the incentives may be causing consumers to buy a car rather than putting it off, but they are not causing a rise in overall demand for cars in Japan.

¶5. (U) Aoki noted Honda was able to obtain credit more easily in Japan during the hardest parts of the financial crisis than in the U.S. That difficulty in obtaining credit caused problems with operating and consumer financing. Honda is pleased, therefore, that the credit market in the U.S. is recovering.

Future Prospects and Government Policies

¶6. (SBU) Optimistic about Honda's business prospects since the company still has new models that appeal to consumers, Aoki noted these new models are a result of investment decisions made five to seven years ago. He asserted some other firms, such as Nissan, had focused more on cutting operating costs rather than taking a

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long-term view. As a result they will find the coming market very difficult. Honda's experience in recent markets reinforced a sense of the importance of investment in R&D and new technologies, particularly should the auto industry shift permanently from internal combustion to electric or other engines.

¶7. (U) Nissan Senior Vice President Kawaguchi said his company is pleased with the recent USG announcement to provide additional funding for electric vehicle (EV) batteries. Nissan views this as a "positive sign" of U.S. support for hybrid vehicle development and Kawaguchi added it should also help create new jobs.

¶8. (SBU) While the EU and Japan are also exploring ways to spur EV production, Kawaguchi said Japan lags in this area. He argued there is not much downside risk in governments "choosing" certain new technologies such as EV batteries over other options, adding industry will be forced to innovate in order to survive, with or without government support. He acknowledged, though, Toyota and Honda have moved more aggressively to a mix of hybrids than has Nissan.

¶9. (SBU) Kawaguchi expressed concern an opposition Democratic Party of Japan (DPJ) victory in upcoming Lower House elections slated for August 30 may not bode well for auto manufacturers since the party is advocating what industry feels are unrealistic CO2 emissions targets and deadlines.

POST